



State of Mississippi
OFFICE OF THE STATE AUDITOR
PHIL BRYANT
Auditor

January 27, 2004

Financial Audit Management Report

Curtis C. Thompson, Executive Director
Mississippi Employment Security Commission
P. O. Box 1699
Jackson, Mississippi 39215-1699

Dear Mr. Thompson:

Enclosed for your review are the financial audit findings for the Mississippi Employment Security Commission for the Fiscal Year 2003. In these findings, the Auditor's Office recommends the Mississippi Employment Security Commission:

1. Strengthen controls over the calculation of the general experience rate; and
2. Strengthen controls over the eligibility verification process.

Please review the recommendations and submit a plan to implement them by February 18, 2004. The enclosed findings contain more information about our recommendations.

During future engagements, we may review the findings in this management report to ensure procedures have been initiated to address these findings.

This report is intended solely for the information and use of management, Members of the Legislature and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

I hope you find our recommendations enable the Mississippi Employment Security Commission to carry out its mission more efficiently. I appreciate the cooperation and courtesy extended by the officials and employees of the Mississippi Employment Security Commission throughout the audit. If you have any questions or need more information, please contact me.

Sincerely,

Phil Bryant
State Auditor

Enclosures

The Office of the State Auditor has completed its audit of selected accounts included on the financial statements of the Mississippi Employment Security Commission for the year ended June 30, 2003. These financial statements are consolidated into the State of Mississippi's Comprehensive Annual Financial Report. The Office of the State Auditor's staff members participating in this engagement included Rob Robertson, Vicki Alvey, Jada Kirk, Carla Dawkins, Brian Quinn, and Mary Jo Milner.

The fieldwork for audit procedures and tests was completed on November 12, 2003. These procedures and tests cannot and do not provide absolute assurance that all state legal requirements have been met. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

Internal Control over Financial Reporting

In planning and performing our audit of selected accounts included on the financial statements, we considered the Mississippi Employment Security Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on these accounts and not to provide assurance on the internal control over financial reporting.

However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the department's ability to record, process, summarize and report financial data consistent with assertions of management in the financial statements. This matter is noted under the heading **REPORTABLE CONDITION**.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses. However, we believe the reportable condition described in this letter is not a material weakness.

In addition, we noted another matter involving the internal control over financial reporting that requires the attention of management. This matter is noted under the heading **IMMATERIAL WEAKNESS IN INTERNAL CONTROL**.

Compliance

As part of obtaining reasonable assurance about whether selected accounts included on the financial statements of the Mississippi Employment Security Commission are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. We are pleased to report the results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

REPORTABLE CONDITION

Controls over the Calculation of the General Experience Rate Should Be Strengthened to Ensure Accuracy

Finding:

Per Section 71-5-355(2)(b)(iv), Miss. Code Ann. (1972), the unemployment contribution assessment tax for each eligible employer shall be the sum of two rates: the employer's individual experience rate, plus a general experience rate. Testwork performed at the Mississippi Employment Security Commission (MESC) revealed that employers were under assessed unemployment contribution assessment taxes for the tax year beginning January 1, 2003, and ending December 31, 2003. The general experience rate used to calculate each employer's contribution tax was understated by three tenths of a percent. The general experience rate used to calculate each employer's contribution tax should have been one percent; however, MESC incorrectly used seven tenths of a percent. Our review of internal controls over the procedures used in the calculation of the general experience rate revealed a lack of adequate supervisory review procedures to ensure the calculation was accurate.

Good internal controls require a detailed supervisory review be performed for the calculation of the general experience rate to ensure accuracy and completeness. Failure to properly apply internal controls could allow errors to occur without being detected promptly.

Recommendation:

We recommend the Mississippi Employment Security Commission strengthen internal controls by requiring a more thorough review be performed to ensure the calculation of the general experience rate is accurate. Evidence of the review should be documented by the reviewer's initials and date of review.

IMMATERIAL WEAKNESS IN INTERNAL CONTROL

Controls Should Be Strengthened over the Eligibility Verification Process

Finding:

As reported in the prior year, during our review of Mississippi Employment Security Commission's (MESC) eligibility verification process, certain weaknesses were noted. Tests of applicants' social security numbers revealed several invalid numbers. These social security numbers did not follow established numbering rules prescribed by the Social Security Administration. We also noted that the agency did not routinely check for duplicate applicant names or mailing addresses. Finally, we noted that from July 2002 to March 2003 the data files maintained by MESC lacked an adequate date of birth field to enable verification of social security numbers; the date of birth field contained only the birth year. Beginning in April 2003, the date of birth field was changed to include the full date.

Recommendation:

We recommend the Mississippi Employment Security Commission (MESC) review verification procedures used to ensure applicants have valid social security numbers. The verification process should include checking for applicants with duplicate names and mailing addresses. MESC should also review the accounts of the applicants that were identified as having invalid social security numbers.

End of Report